

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of HMO Missouri, Inc as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of HMO Missouri, Inc for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER HMO Missouri, Inc, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this March 11, 2009.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

HMO MISSOURI, INC.

As Of
December 31, 2007

DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS
PROFESSIONAL REGISTRATION

MAR 21 2009

FILED



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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February 2, 2009
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle Scheiber, Director
South Dakota Division of Insurance
Secretary of the Midwestern Zone, NAIC

Honorable Kip Stetzler, Acting Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Dear Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

HMO MISSOURI, INC.

hereinafter referred to as such or as the "Company." The Company's statutory home office is located at 1831 Chestnut Street, St. Louis, Missouri 63103, telephone number (314) 923-4444. This examination began on February 25, 2008 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2004 by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2005 through December 31, 2007 and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions or events occurring subsequent to December 31, 2007.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department) or statutes of the state of Missouri prevailed.

PRIOR EXAMINATION COMMENTS

Listed below are the comments taken from the prior examination report as of December 31, 2004. The Company's responses and the item's current status are also indicated.

Comment: Conflict of Interest

"The Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. The Company should require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis and retain copies of these statements in their corporate records to illustrate that this procedure is being performed."

Company response:

"The Company agrees with the recommendation above and enhanced the process in 2003. Annually, the Company completes a Conflict of Interest (COI) disclosure survey to ascertain if any conflicts exist with the insurer's Directors, Officers, and key employees. These COIs are initially reviewed by the Company's Ethics and Compliance department. The Company will continue to annually distribute these respective COI surveys to employees, officers and directors. The exceptions noted by the DOI for the 2004 review occurred since the exam was conducted during the timeframe of when the 2004 COI disclosure surveys were beginning to be collected. These exceptions were not related to the company's documented process."

Current findings:

The Company was able to provide conflict of interest disclosure statements for officers and directors for the period under examination.

Comment: Corporate Records

"The Company was unable to provide examiners with copies of or access to all board of directors minutes and shareholder minutes. We direct the Company to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents."

Company response:

"The Company agrees with the recommendation above. The Company will ensure that documentation of the approval of the items noted in examination are approved by the board of directors/shareholders. In addition all future acts requiring board of directors/shareholders (approval) will be obtained and documented by Corporate Legal department in accordance with the Company's governing documents."

Current findings:

The Company was able to provide copies of shareholder and board meeting minutes for the period under examination.

HISTORY

General

HMO Missouri, Inc. incorporated on May 28, 1987 and began operations in January, 1988 as a wholly-owned subsidiary of Blue Cross and Blue Shield of Missouri, Inc., its ultimate parent. The Company was licensed under the Individual Practice Association form of health plan pursuant to Sections 354.400 to 354.550 RSMo. On January 11, 1998, the Company filed a "Registration of Fictitious Name" with the Missouri Secretary of State, allowing the Company to operate as "BlueCHOICE."

In 1994, Blue Cross and Blue Shield of Missouri, Inc. reorganized. The reorganization included the formation and initial public offering of RightCHOICE Managed Care, Inc. (RightCHOICE). Following a settlement with the Department in 1998 related to the reorganization, Blue Cross and Blue Shield of Missouri, Inc. was dissolved and its in-force business was assumed by the Company and by Healthy Alliance Life Insurance Company, an affiliate. RightCHOICE remained as the Company's ultimate parent.

On January 31, 2002, RightCHOICE completed a merger with WellPoint Health Networks, Inc. (WellPoint), a California-based corporation, and RWP Acquisition Corporation, a wholly owned subsidiary of WellPoint. RightCHOICE and RWP Acquisition Corporation then merged with the surviving entity named RightChoice Managed Care, Inc. (RightCHOICE). The Department approved the merger on January 16, 2002.

On November 30, 2004, WellPoint completed a merger with Anthem, Inc., an Indiana-based corporation. The merger created the nation's largest health insurer. Anthem, Inc., the surviving corporate parent, was renamed WellPoint, Inc.; its common stock is traded on the New York Stock Exchange (symbol:WLP). WellPoint has Blue Cross or Blue Cross and Blue Shield operations in fourteen states.

Capital Stock

HMO Missouri, Inc. has the authority to issue 100,000 shares of \$10 par value common stock. There were 30,000 shares issued and outstanding on December 31, 2007, for a balance of \$300,000 in the Company's capital stock account. All 30,000 shares are owned by RightCHOICE, an indirect subsidiary of WellPoint, the ultimate parent.

Dividends

The Company's board of directors declared a \$23 million extraordinary dividend on August 31, 2007. On September 20, 2007, the Department approved the dividend request. The Company paid the dividend to RightCHOICE on September 28, 2007. There were no other dividends declared or paid during the current examination period.

Management

The board of directors, consisting of at least three members, manages the Company's affairs as prescribed by the Articles of Incorporation. Directors serving at December 31, 2007 were as follows:

<u>Director</u>	<u>Affiliation</u>
John Cannon Indianapolis, IN	Executive Vice-President and General Counsel WellPoint, Inc.
Wayne DeVeydt Indianapolis, IN	Chief Financial Officer WellPoint, Inc.
Dennis Matheis St. Louis, MO	President HMO Missouri, Inc.

The officers appointed and serving as of December 31, 2007 were as follows:

<u>Name</u>	<u>Office</u>
Dennis Matheis	President
Robert Kretschmer	Treasurer
Nancy Purcell	Secretary
Joseph Murray	Assistant Secretary

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all Company directors and officers. Disclosure statements covering the years under examination were reviewed; no material conflicts were indicated.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. There were no amendments to the Articles of Incorporation or the Bylaws during the examination period.

The minutes of the meetings of the shareholder and of the board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve corporate events and transactions.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

In March 1998, the Company issued an \$18 million surplus note payable to its parent, RightCHOICE Managed Care, Inc. on April 1, 2003. The due date was subsequently changed to December 31, 2005. On June 17, 2005 the Department approved a payment of \$14 million, which the Company made on July 1, 2005. On December 29, 2005, the Department approved payment of the balance of \$9.8 million. The Company made the payment on January 3, 2006.

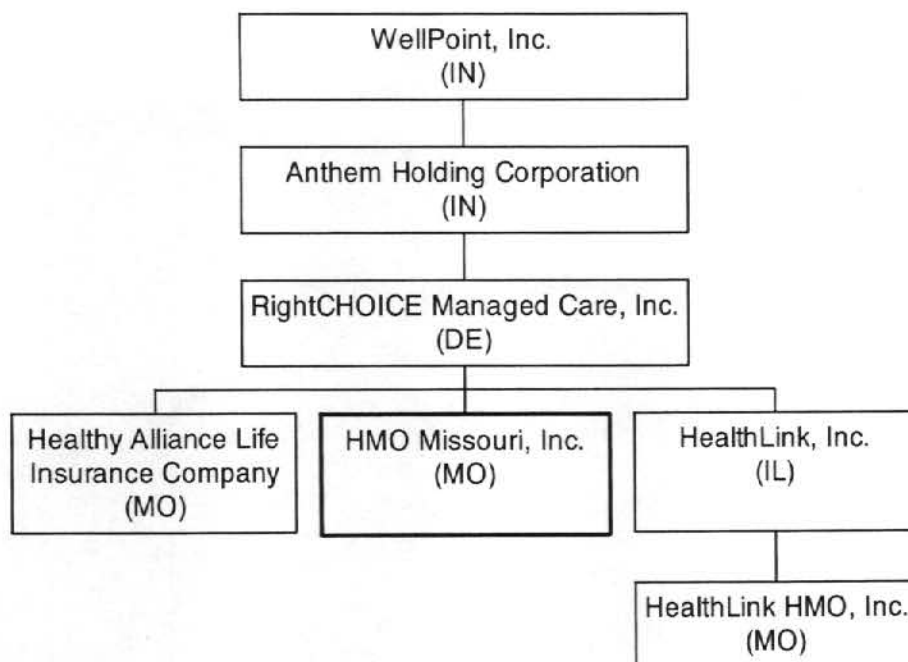
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). WellPoint, Inc. is the ultimate controlling entity in the insurance holding company system. WellPoint, Inc. is a publicly held corporation headquartered in Indianapolis, Indiana. The common stock of WellPoint, Inc. is traded on the New York stock exchange under the symbol WLP. No one party owns 10% or more of the voting securities of WellPoint, Inc.

Organizational Chart

The following is a portion of the WellPoint, Inc. organizational chart. Only companies directly related to HMO Missouri, Inc., other Missouri domestic insurers, and companies with which HMO Missouri, Inc. has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent.



Affiliated Transactions

Master Service Agreement and Addendum

The Company is party to a master service agreement between WellPoint and its direct and indirect subsidiaries. The companies provide administrative, consulting and other services to each other. The receiving company pays the providing company reasonable compensation. WellPoint and the companies either trace the service costs directly to the end-user or they utilize an allocation methodology. The amended and restated agreement, retroactively effective January 1, 2006, was submitted to the Department and was non-disapproved on April 5, 2006.

Out-of-Network Agreement

The Company entered into an out-of-network agreement with Healthy Alliance Life Insurance Company effective January 15, 1997. The agreement was submitted to the Department on September 20, 2002 and non-disapproved February 13, 2003. This arrangement allows HMO Missouri, Inc. to offer a point-of-service product with expanded out-of-network benefits. The Company pays a per-member-per-month fee which is determined quarterly. The fee, which is based on underwriting and actuarial standards employed by the parties and reflects historical claims experience, is payable monthly.

Stop-Loss Agreement

The Company's affiliate, Healthy Alliance Life Insurance Company, provides stop-loss coverage to some of the Company's administrative services only ("ASO") plan sponsors. The coverage is provided in accordance with the applicable ASO agreement between the plan sponsor and the Company. The affiliate's fee calculations are based on underwriting principles used to price similar health insurance products.

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement with eligible WellPoint, Inc. subsidiaries effective December 31, 2005. The Department non-disapproved the agreement on September 19, 2006. The RightChoice Managed Care, Inc. subsidiaries participate in the filing of a consolidated federal income tax return with WellPoint, Inc. and its other subsidiaries. The consolidated tax liability allocated to the companies is limited to their separate tax return tax liability. Companies are reimbursed for any deductions, net operating losses and credits used by the consolidated group. Estimated tax payments and settlements are made through the intercompany accounts of subsidiaries.

Guarantee and Conversion Agreement

The Company is party to an agreement with WellPoint, Inc. dated November 30, 2004 under which WellPoint, Inc. agrees to guarantee, to the full extent of its assets, all of the contractual and financial obligations of HMO Missouri, Inc. In the event the Company ceases operations, WellPoint, Inc. or one of its licensed affiliates will provide coverage to the policyholders of HMO Missouri, Inc. without consideration of health status. The Department approved this agreement on November 21, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a \$20,000,000 financial institution bond issued to its ultimate parent, WellPoint, Inc. The amount of coverage meets the suggested minimum amount recommended by the NAIC. The coverage also meets the requirement of Section 354.425 RSMo (Bonding of officers who disburse or invest funds), which stipulates a minimum bond amount of \$100,000.

Section 354.425 RSMo further requires the bond to include a one-year minimum discovery period. Bonds with a discovery period of less than three years must include a provision prohibiting cancellation or termination without ninety days' prior written notice to the Director. The Company amended its fidelity coverage to meet the requirements of RSMo 354.425 concerning notification of cancellation.

The Company is also a named insured on policies issued to WellPoint, Inc. for the following types of coverage: directors and officers liability; managed care professional liability; commercial property; general liability; auto liability; fiduciary liability; umbrella liability; workers compensation and employers liability and computer crime. The Company's coverage appears to be adequate.

EMPLOYEE BENEFITS

The Company has no employees. Services are provided by affiliates under an administrative services agreement described under "Affiliated Transactions." WellPoint, Inc. employees are provided benefits including group health, vision and dental coverage, group life insurance, short- and long-term disability, a 401(k) plan, vacation and sick leave, an employee assistance plan and tuition reimbursement. Employee benefits costs are included in intercompany charges from affiliates.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo (Certificate Issued, when—annual deposit required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	<u>\$324,000</u>	<u>\$322,911</u>	<u>\$321,587</u>

Deposits with Other States

The Company also has funds on deposit with the state of Illinois, in which it is licensed, to satisfy their statutory deposit requirements. Those funds, as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$150,000	\$155,004	\$148,331
FNMA	210,000	218,295	209,882
FNMA	<u>280,000</u>	<u>281,890</u>	<u>279,358</u>
Totals	<u>\$640,000</u>	<u>\$655,189</u>	<u>\$637,571</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

General

HMO Missouri, Inc. is licensed in Missouri under Section 354.400 – 354.550 RSMo (Health Maintenance Organizations) and is organized as an individual practice association model. The Company is also licensed in Illinois. The Company offers services to approximately 122,700 HMO and Point of Service (POS) members, including approximately 6,400 on a self-funded basis, in counties in Missouri and Illinois.

Marketing

The Company's BluePreferred POS product is offered in metropolitan St. Louis, southwest Missouri, portions of southeast Missouri, and central Missouri through the BlueCHOICE HMO network. The BlueCHOICE network supports the following HMO and POS products:

- Blue Preferred – an open access health maintenance organization (HMO) offering benefits within the HMO network. This product is available to groups and individuals.
- Blue Preferred Plus – an open access point-of-service (POS) product offering benefits within the HMO network as well as out-of-network benefits with various deductibles and co-insurance options. This is a group product only.
- FEP HMO – HMO Missouri, Inc. contracts with the Office of Personnel Management (OPM) to administer an HMO product for Federal Government employees. The Federal Employee Program is considered “underwritten” as HMO Missouri, Inc. is at risk for a small portion of the losses should they exceed premiums.
- ASO/ASC Business – the Company administers various Administrative Service Only and Administrative Service Contract plans on behalf of employer groups.

Provider Contracts; Grievance Procedures; Quality Assurance, Utilization Review and Provider Credentialing

The Department has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination was completed on July 26, 2004. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company.

REINSURANCE

General

Premiums reported during the examination period were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct premium	\$342,765,312	\$398,095,518	\$377,782,992
Reinsurance ceded	<u>9,842,278</u>	<u>10,144,138</u>	<u>12,693,686</u>
Net written premium	<u>\$332,923,034</u>	<u>\$387,951,380</u>	<u>\$365,089,306</u>

During the current examination period, the Company reported the fees associated with its out-of-network agreement (see “Affiliated Transactions”) as reinsurance premiums ceded. The Company and the Department have agreed that, on a prospective basis beginning in third quarter 2008, the Company will discontinue reporting its out-of-network fees as reinsurance and will report them as direct premium.

ACCOUNTS AND RECORDS

Independent Auditor

The Company’s financial statements are audited annually by Ernst & Young, LLP. The 2007 audit work papers were reviewed and included in the examination to the extent deemed appropriate.

Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Tim P. Deno, FSA, MAAA, Vice-President and Corporate Valuation Actuary for WellPoint, Inc. Consulting actuary Karen Elsom, FSA, MAAA of Lewis & Ellis, Inc. was retained by the Department to review the adequacy of reserves and other related liabilities. The consulting actuary found the reserves to be adequately stated.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No material exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2007 and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 49,207,583	\$ -	\$ 49,207,583
Cash, cash equivalents and short-term investments	3,024,355	-	3,024,355
Receivables for securities	100,000	-	100,000
Investment income due and accrued	353,113	-	353,113
Uncollected premiums and agents' balances in the course of collection	9,932,419	2,463,959	7,468,460
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,988,735	-	11,988,735
Amounts receivable relating to uninsured plans	960,621	179,281	781,340
Current federal and foreign income tax recoverable	44,975	-	44,975
Net deferred tax asset	7,072,517	2,866,124	4,206,393
Receivables from parent, subsidiaries and affiliates	19,238,894	15,536,991	3,701,903
Health care and other amounts receivable	3,716,643	533,099	3,183,544
FEP assets held by agents	30,916,861	-	30,916,861
State income tax receivable	575,547	-	575,547
Totals	<u>\$ 137,132,263</u>	<u>\$ 21,579,454</u>	<u>\$ 115,552,809</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$ 39,397,650
Accrued medical incentive pool and bonus amounts	120,001
Unpaid claims adjustment expenses	1,591,087
Aggregate health policy reserves	31,925,538
Premiums received in advance	2,291,355
General expenses due or accrued	2,052,192
Amounts withheld or retained for the account of others	1,092,733
Remittances and items not allocated	1,360,000
Amounts due to parent, subsidiaries and affiliates	2,041,286
Liability for amounts held under uninsured plans	270,108
Escheatable funds	929,514
Accrued retroactive premium	<u>196,000</u>
Total liabilities	\$ 83,267,464
Common capital stock	\$ 300,000
Unassigned funds (surplus)	<u>31,985,345</u>
Total capital and surplus	\$ 32,285,345
Total liabilities, capital and surplus	<u>\$ 115,552,809</u>

INCOME STATEMENT

Net premium income	\$ 365,089,306
Change in unearned premium reserves	<u>(6,433)</u>
Total revenues	365,082,873
Hospital/medical benefits	222,478,034
Other professional services	38,075,487
Emergency room and out-of-area	8,811,425
Prescription drugs	52,809,378
Vision	683,022
Incentive pool, withhold adjustments and bonus amounts	107,652
Net reinsurance recoveries	(12,940,828)
Claims adjustment expenses	9,493,996
General administrative expenses	<u>24,517,057</u>
Total underwriting deductions	344,035,223
Net underwriting gain	21,047,650
Net investment income earned	3,248,118
Net realized capital losses	<u>(32,644)</u>
Net investment gains	3,215,474
Federal and foreign income taxes incurred	<u>8,311,724</u>
Net income	<u><u>\$ 15,951,400</u></u>

CAPITAL AND SURPLUS

Capital and surplus, December 31, prior year	\$ 53,065,419
Net income	15,951,400
Change in net deferred income tax	5,277,957
Change in non-admitted assets	(19,009,431)
Dividends to stockholders	<u>(23,000,000)</u>
Net change in capital and surplus	(20,780,074)
Capital and surplus, December 31, current year	<u><u>\$ 32,285,345</u></u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None


ACKNOWLEDGMENT

The assistance and cooperation extended by HMO Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Arthur Palmer, CFE, Karen Milster, CPA, CFE, Amy Snyder and Andrew T. Balas, CPA, CFE, AES, examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Consulting actuary Karen Elsom, FSA, MAAA, of Lewis and Ellis was retained by the Department to review the adequacy of reserves and other related liabilities.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
DIFP/Insurance

Sworn to and subscribed before me this 2 day of February 2009.
My commission expires:


7/26/2012



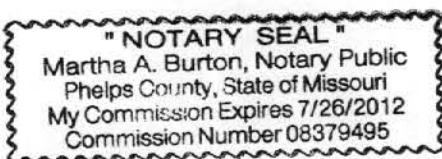
Martha A. Burton
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael R. Shadowens, CFE
Audit Manager
DIFP/Insurance



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DEPT OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Anthem Blue Cross and Blue Shield
6775 W. Washington Street
Milwaukee, WI 53214
www.anthem.com

Anthem. 

March 5, 2009

Mr. Frederick G. Heese, CPA, CFE
Chief Financial Examiner and Acting Division Director
Department of Insurance
Harry S. Truman State Office Building
301 West High Street, Room 530
Jefferson City, Missouri 65101

VIA UNITED PARCEL SERVICE

Re: HMO Missouri, Inc.
Financial Examination Report Dated February 2, 2009

Dear Mr. Heese:

We have reviewed the financial examination report for HMO Missouri, Inc. for the year ended December 31, 2007 and accept the report as is, noting there are no general comments or recommendations on page 14 of the report. We wish to have our response included in the report as a public document.

Please contact me at 414-459-6833 or at brenda.buss@bcbswi.com if you have any questions.

Sincerely,

Brenda J. Buss

Brenda J. Buss
Director, Regulatory Reporting
Anthem Blue Cross and Blue Shield
Phone: 414-459-6833
Fax: 414-459-5689

CC: Jim Kallas Dennis Matheis Beth Cox
Ron Penczek Doug Bahr
Joseph Murray Anne Honisch